

**PUBLIC DISCLOSURE**

**SEPTEMBER 19, 2008**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**FAMILYFIRST BANK**

**26594**

**40 MAIN STREET  
WARE, MA 01082**

**DIVISION OF BANKS  
ONE SOUTH STATION  
BOSTON, MA 02110**

<p><b>NOTE:</b> This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires the Division of Banks ("Division") to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting its needs of its entire assessment area, including low and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **FAMILYFIRST BANK (or the "Bank")** prepared by the Division, the institution's supervisory agency.

### **INSTITUTION'S CRA RATING: This institution is rated "Satisfactory"**

FamilyFirst Bank was evaluated for Community Reinvestment under the five performance criteria of the CRA Small Institution Examination procedures as described below. The Bank's satisfactory rating is based on the following:

FamilyFirst Bank has achieved a more than reasonable average net loan to deposit ratio of 104.6 percent, indicating that deposits are being returned back to the community in the form of loans. A clear majority of residential loans have been granted within the Bank's assessment area, as defined by the Bank. FamilyFirst Bank has demonstrated a reasonable distribution of loans among borrowers of different income levels and shows an adequate level of penetration among all segments of the population, including low- and moderate-income borrowers. The Bank has also demonstrated an adequate dispersion of residential mortgage loans throughout its assessment area with a reasonable level of originations in the moderate-income census tracts. FamilyFirst Bank has shown a regular implementation of fair lending policies and procedures and no CRA complaints have been received by the Bank during the period examined.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

FamilyFirst Bank is a community financial institution incorporated as a Massachusetts co-operative bank in 1920. The Bank operates a main office in downtown Ware, Massachusetts and two other branches; one in the adjacent town of Palmer, located in the “Three Rivers” section and the other in East Brookfield. All offices offer drive-up window service and 24-Hour ATMs with network access, including NYCE, MasterCard and VISA. FamilyFirst Bank is a member of the SUM network of financial institutions. These institutions do not levy ATM surcharges on their own or to other members’ customers.

FamilyFirst Bank, as of June 30, 2008 had total assets of \$61.3 million while total loans represented \$43.1 million or 70.3 percent of assets. The following table depicts the composition of the Bank’s loan portfolio.

Loan Portfolio June 30, 2008*		
Type of Loans	\$(000's)	% of Total Loans
Construction & Land Development	0	0.0
Residential Real Estate		
a. 1-4 Family Mortgages	30,072	69.8
b. Home Equity Lines/Loans	5,511	12.8
Multifamily	1,996	4.6
Commercial Loans		
a. Commercial Real Estate.	1,487	3.4
b. Commercial Loans	1,281	3.0
b. Agricultural Loans	1,172	2.7
Consumer Loans		
a. Credit Cards	0	0.0
b. Loans to Individuals	1,573	3.7
Other Loans	0	0.0
<b>Total</b>	<b>43,092</b>	<b>100.0</b>

\*Source: FDIC Call Report of Condition.

First mortgage loans (secured by 1-4 family dwellings) represent the majority (69.8 percent) of the Bank’s loan portfolio. Home equity lines/loans comprise the second largest segment (12.8 percent) of the portfolio. Multifamily (5 units or more) and commercial real estate loans combined with commercial/agricultural loans, make up the third largest portion (9.12 percent) of the Bank’s loan portfolio. Lastly, consumer loans comprise the remaining portion (3.7 percent) of the loan portfolio.

As described, FamilyFirst Bank is primarily a residential mortgage lender, which has diversified into commercial and agricultural loans as well as consumer loans. The Bank maintains most of its loans in portfolio. The Bank is a member of the Federal Home Loan Bank of Boston and a Federal Home Loan Mortgage Corporation (FHLMC) approved seller/servicer. The institution is also an approved Small Business Administration (SBA) lender. The Bank also offers several types of checking and savings accounts, automated teller machine and debit cards, and internet and telephone banking.

The Bank has direct mortgage lending competition from local and regional banks and nationally based mortgage companies. In 2006, the five most active lenders within the assessment area were (1) Country Bank for Savings (9.5 market share); (2) Countrywide Home Loans (7.6 percent market share); (3) Bank of America, N.A.(market share of 3.1 percent); (4) Spencer Savings Bank (3.0 market share); and (5) Citimortgage, Inc. (2.6 percent market share). These lenders combined held a 25.8 percent share of all mortgage loan originations reported under the Home Mortgage Disclosure Act ("HMDA") requirements. FamilyFirst Bank ranked 24<sup>th</sup> with a 0.9 percent market share. Country Bank for Savings, the strongest competitor, is headquartered in downtown Ware. There were a total of 267 HMDA reporting mortgage lenders active within the assessment area in 2006.

The Division last conducted a CRA evaluation as of April 7, 2003. This evaluation resulted in a "Satisfactory" rating. The FDIC also conducted a CRA evaluation as of February 21, 2006, which resulted in a "Satisfactory" rating. There are no legal or financial impediments which would prohibit the Bank from meeting the credit needs of the assessment area.

### **Description of Assessment Area**

The CRA requires financial institutions to define an assessment area within which the bank will focus its lending efforts. The Division evaluates the institution's CRA performance based on the defined assessment area. Generally, assessment area(s) are expected to consist of Metropolitan Statistical Areas ("MSA"s) or contiguous political subdivisions such as counties, cities and towns. FamilyFirst Bank's assessment area is in conformance with the CRA regulation containing only whole geographies or census tracts.

FamilyFirst Bank's assessment area includes 10 communities located in three counties. The municipalities of Ware and Belchertown are located in Hampshire County; Palmer in Hampden County; Brookfield, East Brookfield, North Brookfield, West Brookfield, Hardwick, New Braintree and Warren are all located in Worcester County. Hampshire and Hampden Counties are part of the Springfield MSA, and Worcester County is part of the Worcester MSA. The assessment area has no low-income census tracts, two moderate-income census tracts, 10 middle-income census tracts and one upper-income census tract for a total of 13 census tracts.

The CRA regulation defines income levels as: low-income (less than 50 percent of the area median income), moderate-income (50 to 79 percent of median family income), middle-income (80 to 119 percent of area median income), and upper-income (120 percent and greater of the area median income). The census tract income levels are based on the median family income within the given tract.

### ***Population and Family Income Levels***

Based on 2000 U.S. Census data, the assessment area has a total population of 57,132. The distribution of this population by income level of census tract is as follows: 8,487 individuals, or 14.8 percent, reside in the moderate-income census tracts; 43,375, or 75.9 percent, reside in middle-income census tracts; and 5,279, or 9.3 percent, reside in upper-income census tracts.

The 2000 U.S. Census data also shows that there are 15,488 families in the assessment area. The distribution of these families by income level is as follows: 18.7 percent low-income; 20.3 percent moderate-income; 25.4 percent middle-income; and 35.6 percent upper-income.

### ***Unemployment***

According to the 2000 U.S. Census data, 2.3 percent of the assessment area's labor force was unemployed. According to the U.S. Bureau of Labor Statistics, the state of Massachusetts had a 4.3 percent unemployment rate as of December 2007, which is lower than the national rate of 5.0 percent. The Massachusetts Department of Revenue reported a 4.5 percent unemployment rate in Worcester County, a 5.1 percent unemployment rate in Hampden County and 3.3 percent unemployment rate in Hampshire County for December 2007.

### ***Housing***

The assessment area contains a total 23,804 housing units and 22,399 households. Owner-occupied units account for 67.5 percent of the assessment area's housing units, occupied rental units account for 26.4 percent, and 6.1 percent remain vacant. Of the total number of households, 1,797 or 8.0 percent are below the poverty level. Refer to the following table for further information detailing the assessment area's housing by census tract income level.

Selected Housing Characteristics by Income Category of the Geography							
Geographic Income Category	Percentage						Median Home Value
	Census Tracts	House-holds	Housing Units	Owner-Occupied	Rental Units	Vacant Units	
Low	0.0	0.0	0.0	0.0	0.0	0.0	\$0
Moderate	15.4	15.7	15.9	12.4	24.3	19.9	\$102,600
Middle	76.9	75.9	76.0	77.7	71.3	76.9	\$125,896
Upper	7.7	8.4	8.1	9.9	4.4	3.2	\$149,700
NA	0.0	0.0	0.0	0.0	0.0	0.0	\$0
Total / Median	100.0	100.0	100.0	100.0	100.0	100.0	\$124,099

Source: 2000 U.S. Census

As previously mentioned, the assessment area contains no low-income census tracts and only two moderate-income census tract. The table above depicts the low availability of housing in both the moderate-income census tracts. This low availability of housing inhibits the Bank's ability to lend in these census tracts. The table also displays the median home values in each tract, with an overall median of \$124,099, based on 2000 U.S. Census data. More recent data obtained from *The Warren Group* indicate that the 2008 median home sales prices ranged from a low of \$165,000 in Palmer to a high of \$257,000 in Belchertown. In 2007, median home sales prices in the assessment area ranged from a low of \$177,000 in Ware to a high of \$289,500 in Hardwick, reflecting an overall decline in sales prices. Refer to the following table for further information regarding the median sales prices by town.

Median Home Sales Prices		
Town	2007	YTD 2008
Belchertown	269,700	257,000
Brookfield	255,000	245,000
E. Brookfield	287,000	170,000
Hardwick	289,500	220,000
New Braintree	248,000	220,000
N. Brookfield	236,000	190,000
Palmer	186,000	165,000
Ware	177,000	162,500
Warren	198,000	180,000
W. Brookfield	238,500	174,500

Source: *The Warren Group*

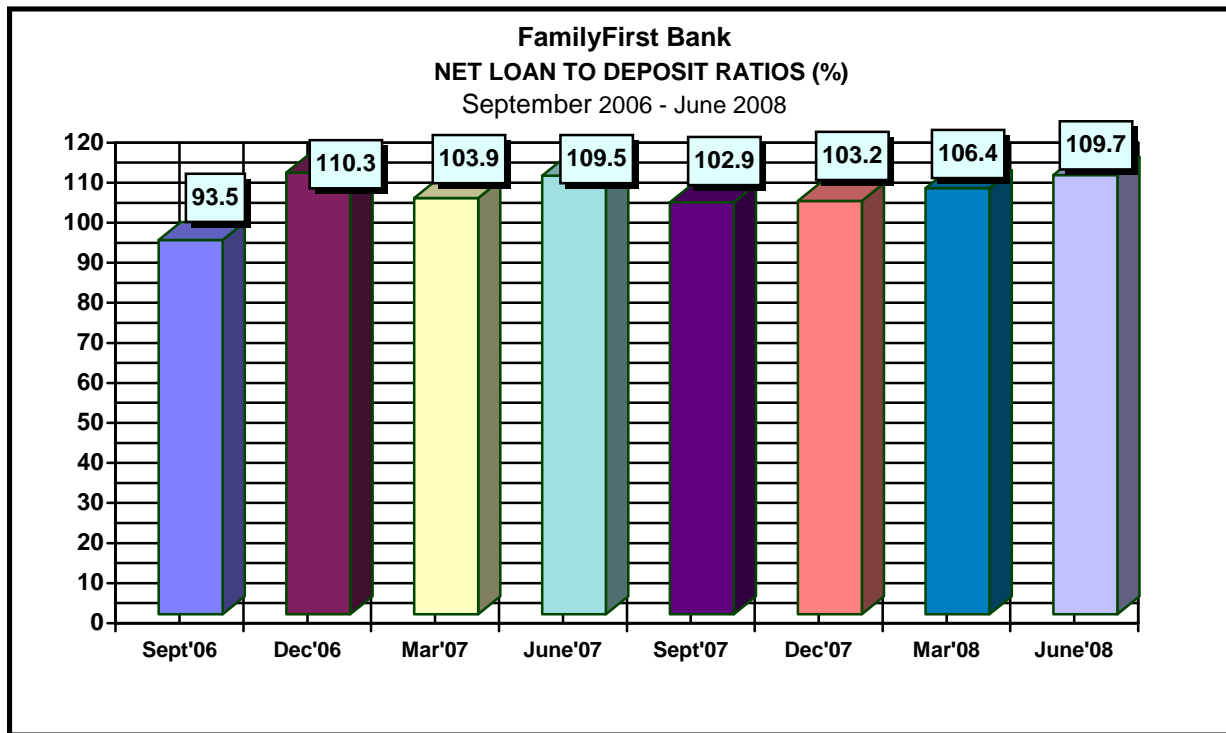
As indicated in the table above, the median sales prices in the assessment area declined between 2007 and year-to date June 30, 2008, which is indicative of real estate market conditions throughout Massachusetts.

## **PERFORMANCE CRITERIA**

An onsite evaluation was conducted using small bank procedures, as defined by the CRA. Small bank standards require the evaluation of an institution pursuant to the following criteria: loan-to-deposit ratio, lending inside the assessment area, geographic distribution of loans, lending to borrowers of different incomes, response to CRA complaints and the Division's fair lending evaluation.

### **1. LOAN TO DEPOSIT ANALYSIS**

The Bank's loan-to-deposit ratio, which measures the percentage of deposits invested in loans, reflects a more than reasonable level of responsiveness to the credit needs of the assessment area. The Bank's average net loan-to-deposit ratio for the past eight quarters beginning September 2006 through June 2008 is 104.6 percent. The following graph depicts the net loan to deposit ratio level and trend for the quarters reviewed.



The ratio of net loans to deposit (LTD) has fluctuated over this time period. Overall, net loans increased by 2.9 percent from \$41.5 million to the current level of \$42.7 million. Conversely, deposits have decreased 12.3 percent over the same period from \$44.4 million as of September 30, 2006 to the current level of \$38.9 million. Loan growth outpaced deposit growth resulting in an increased loan to deposit ratio.

It should be noted that the Bank has originated loans and sold them on the secondary market. The Bank originated and sold 61 loans totaling approximately \$7 million dollars over this same time period. These loans are not necessarily reflected in the loan-to-deposit ratio; however, this information does indicate further responsiveness in meeting the credit needs of the assessment area.



In conclusion, FamilyFirst Bank's average net loan to deposit ratio of 104.6 percent is more than reasonable and exceeds standards for a satisfactory rating, given the Bank's capacity to lend and the credit needs of the assessment area.

## 2. COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE OF THE ASSESSMENT AREA(S)

A majority of the Bank's HMDA reportable loans, by both number and dollar amount were to borrowers inside the assessment area. Refer to the following table for specific detail:

<b><i>Distribution of HMDA Loans Inside and Outside of the Assessment Area</i></b>										
<b>Year</b>	<b>Number of Loans</b>					<b>Dollars in Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
<b>2006</b>	39	70.9	16	29.1	55	4,942	68.2	2,303	31.8	7,245
<b>2007</b>	32	69.6	14	30.4	46	4,121	65.5	2,170	34.5	6,291
<b>Total</b>	<b>71</b>	<b>70.3</b>	<b>30</b>	<b>29.7</b>	<b>101</b>	<b>9,063</b>	<b>66.9</b>	<b>4,473</b>	<b>33.1</b>	<b>13,536</b>

Source: PCI Services, Inc. CRA WIZ, HMDA LAR

The Bank originated a total of 101 residential mortgage loans for calendar years 2006 and 2007. Lending activity inside the assessment area represented 70.3 percent by number and 66.9 percent by dollar amount. This level of lending and originations reflects satisfactory responsiveness to meeting the credit needs of the assessment area.

## 3. DISTRIBUTION OF CREDIT AMONG DIFFERENT INCOME LEVELS

This criterion evaluates the extent to which the institution lends to borrowers of different income levels within its assessment area. The Bank's performance under this criterion was found to be reasonable and to meet the standards for a satisfactory performance. Residential mortgage lending was evaluated to determine the institution's performance.

Borrower income levels are compared to the area median family income ("MFI") for the MSA to determine the borrowers' income levels.

The Springfield, MA MSA's median family income (MFI) was \$62,900 and \$61,800 in 2006 and 2007, respectively. In the Worcester, MA MSA the median family incomes were \$71,700 and \$72,800, respectively.

The following table compares the Bank's borrower income distribution to that of the HMDA aggregate lenders. The table also compares these distributions to the proportion of family households within the assessment area based on 2000 U.S. Census data.

<b>Distribution of HMDA Loans by Borrower Income</b>								
<b>Median Family Income Level</b>	<b>% Families</b>	<b>Aggregate Lending Data (% of #)</b>	<b>2006</b>		<b>2007</b>		<b>Total</b>	
			<b>2006</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>
<b>Low</b>	18.7	5.3		1	2.6	3	9.4	4
<b>Moderate</b>	20.3	18.5		9	23.1	7	21.9	16
<b>Middle</b>	25.4	29.7		16	41.0	9	28.1	25
<b>Upper</b>	35.6	28.9		13	33.3	13	40.1	26
<b>N/A</b>	-	17.6		0	0.0	0	0.0	0
<b>Total</b>	100.0	100.0		39	100.0	32	100.0	71

Source: PCI Services, Inc. CRA WIZ, HMDA LAR

The comparison with the 2006 aggregate lenders' data indicates the level of lending opportunities existing among borrowers of different income categories within the Bank's assessment area. In the above analysis, the aggregate lenders' distribution corresponds reasonably to the distribution of family households with the exception of the low-income families. The aggregate lenders' distribution also includes a segment of borrowers for which income was not available (NA) which represented 17.6 percent of all loans. In comparison, FamilyFirst Bank demonstrated zero percent of loans as N/A. N/A loans may involve loans to Bank employees or loans in which the income was not considered such as purchased loans. It would appear, however, that the relatively high level of N/A entries in the aggregate data may have the ability to skew the distribution in other income levels.

In 2006, the Bank's distribution of loans to low-income borrowers (2.6 percent by number) was somewhat less than the aggregate lenders' distribution (5.3 percent by number) to these borrowers. However, the Bank's distribution to moderate-income borrowers (23.1 percent by number) was higher than the collective lenders' (18.5 percent by number) performance. In addition, FamilyFirst Bank's lending to middle income borrowers (41 percent) was much higher than the aggregate lenders' distribution (29.7 percent), indicating a reasonable distribution to this income group. The Bank's distribution to low and moderate-income borrowers increased in 2007 showing an improved trend.

The CRA encourages financial institutions to serve the credit needs of all segments of its assessment area, but particularly borrowers of low and moderate-income. Overall, the Bank's lending distribution is considered reasonable and shows an adequate level of penetration among all segments of the population, including low- and moderate-income borrowers.

#### **4. GEOGRAPHIC DISTRIBUTION OF LOANS**

The geographic distribution of loans was reviewed to assess how well the Bank is addressing the credit needs throughout the assessment area. Based on the review of the 2006 and 2007 HMDA Loan Application Register ("LAR"), the geographic distribution of loans reflects an adequate dispersion throughout the assessment area.

As stated in the Performance Context, the Bank's assessment area contains a total 13 census tracts, two moderate-income census tracts, 10 middle-income census tracts, and one upper-income census tract.

The Bank's lending activity within the assessment area was reviewed in order to determine the distribution of lending among the various census tracts.

The following table provides a breakdown by number of the Bank's HMDA reportable loans within its assessment area according to the census tract income level. The table also shows the loans in comparison to the percentage of owner-occupied housing units in each of the census tract income categories as well as the aggregate lending for 2006. Refer to the following table.

<b><i>Distribution of HMDA Loans by Income Category of the Census Tract</i></b>								
<b><i>Census Tract Income Level</i></b>	<b><i>% Total Owner-Occupied Housing Units</i></b>	<b><i>Aggregate Lending Data (% of #)</i></b>	<b><i>2006</i></b>		<b><i>2007</i></b>		<b><i>Total</i></b>	
			<b><i>2006</i></b>	<b><i>#</i></b>	<b><i>%</i></b>	<b><i>#</i></b>	<b><i>%</i></b>	<b><i>#</i></b>
<b><i>Low</i></b>	0.0	0.0	0	0.0	0	0.0	0	0.0
<b><i>Moderate</i></b>	12.4	14.0	8	20.5	7	21.9	15	21.1
<b><i>Middle</i></b>	77.7	76.8	31	79.5	25	78.1	56	78.9
<b><i>Upper</i></b>	9.9	9.2	0	0.0	0	0.0	0	0.0
<b><i>Total</i></b>	100.0	100.0	39	100.0	32	100.0	71	100.0

Source: PCI Services, Inc., CRA WIZ, HMDA LAR

In 2006, the Bank extended 20.5 percent of its residential loans in moderate-income geographies, which is slightly above aggregate performance levels and compares favorably to the percentage of owner occupied units in those tracts. The Bank's performance level of originations in both moderate and middle-income tracts was relatively constant for the two years. The Bank did not have any penetration into the single upper-income census tract in either year.

It should also be noted that market rank reports for 2006 show that the Bank ranked 12<sup>th</sup> out of all lenders that originated or purchased residential mortgage loans in the two moderate-income census tracts in the assessment area.

## **COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS**

A review was conducted for compliance with fair lending regulations, and no evidence of disparate treatment or impact was revealed.

### ***Fair Lending Policies and Procedures***

A review of the Bank's public comment file indicated that the Bank received no complaints pertaining to the institution's CRA performance since the previous examination.

The Bank has a written Fair Lending Policy, included in this policy are the Bank's efforts to eliminate discrimination in all aspects of lending. Fair lending training is provided to all new employees and all existing employees at least annually. The Bank also has a second review process by which all denied applications are reviewed to ensure all lending policies and procedures are being adhered to.

## **MINORITY APPLICATION FLOW**

A review of residential loan applications was conducted in order to determine the number of HMDA-reportable credit applications the Bank received from minority applicants. For the period reviewed, the Bank received one HMDA reportable mortgage application from racial minority groups within its assessment area and it was originated.

The Bank's minority application flow for this period was compared with the racial and ethnic composition of the assessment area and the 2006 aggregate data for all other HMDA reporters within the assessment area. The comparison of these data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants. According to 2000 Census Data, the Bank's assessment area contained a total population of 57,132 individuals, 3.7 percent of which is representative of various racial and ethnic minorities. The breakout of the assessment areas minority population is as follows: 1.3 percent Hispanic, 0.5 percent Black, 0.5 percent Asian, 0.2 percent American Indian/ Alaska Native and 1.1 percent "other race". Aggregate lending data for 2006 indicates that 2.3 percent of all applications were from minority applicants.

The Bank only received one minority application over the two year period representing 1.4 percent of all applications. The percentage of applications the Bank received from minority individuals was below the minority composition of the assessment area and decreased between 2006 and 2007. Given the low minority population and highly competitive residential lending market, the Bank's level of minority applications is considered marginally adequate.

## **Community Development Activities**

Management requested a review of its community development activities. During the period under review, FamilyFirst Bank participated in three federal subsidized loan programs. The programs are administered through the Federal Home Loan Bank, United States Department of Agriculture Farm Service Agency (USDA FSA) and the Small Business Administration (SBA). Additionally, the Bank has developed its own in-house farm loan products as well as engaging in lending to local nonprofit agencies and organizations.

The Bank has a \$5 million advance line from the Federal Home Loan Bank Community Development Advance Small Business Lending Program. The Bank advanced a total of \$3,694,000 on 8 loans for the time period covered by this evaluation. Under the USDA FSA program, the Bank originated 2 loans totaling \$1,055,000 and under the SBA Express 50 percent guarantee program it originated 4 loans totaling \$503,000.

In response to the credit needs of the agricultural community within the region, the Bank initiated its own farm loan products. The Bank originated 6 loans totaling \$1,131,200 to area farms during the time period covered. While several of the loans originated under all of these programs have community development as an underlying purpose, the loans do not meet the definition of a community development loan under the regulation and would be reported as either small business or HMDA loans.

The Bank's participation in these loan programs as well as initiating its own products to meet the credit needs within its assessment area is notable for an institution of its size. This activity is also supplemented by management's lending of its financial expertise to area nonprofit and community development organizations as well as filing grant applications to the Federal Home Loan Bank Affordable Housing Program on behalf of an area nonprofit.

## PERFORMANCE EVALUATION DISCLOSURE GUIDE

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks, at 40 Main Street, Ware, MA 01082."

[Please Note: If the institution has more than one assessment area, each office (other than off-premises electronic deposit facilities) in that community shall also include the address of the designated office for that assessment area.]

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.